



INSIDE: The 2007 Annual Report

Get an insider's look at how our customers and company fared in 2007

Volume 1 2008

Perspectives

A RESOURCE FOR MONTANA'S WORKERS, EMPLOYERS AND HEALTH CARE PROVIDERS



WWW.MONTANASTATEFUND.COM

Work Hard, Be Safe in 2008

With training, seminars, guides and new websites, workplace safety is a goal we can all achieve.

So, you're on your way toward completing all those resolutions for 2008—eat healthier, build that deck and write more thank-you notes, right? Here's a new one, a goal that's easier to reach than you might think: resolve to make your workplace safer. Aside from the obvious benefits like fewer injuries and happier employees, workplace safety is also good for your bottom line. And Montana State Fund can help. With our extensive training seminars, guides and websites, you'll be checking "be safer" off your list and creating a new culture in your workplace.

Safety Management Consultants (SMCs). Through one-on-one appointments and readily available information, our SMCs draw on their experiences to help our customers shape their own individual safety programs. Take advantage of this unique resource to get your 2008 workplace safety efforts off to a smart start.



Safety workshops. Montana State Fund has created these free quarterly workshops to give employers and employees the tools they need to establish and fine-tune their own safety plans. You'll walk away knowing more, and you'll be energized about making safety a top priority.

MSF website. Our easy-to-use website (montanastatefund.com) is a great overview of every business' safety concerns. It has pertinent safety resources, workshop schedules, ergonomics tips, and guides for establishing a workplace safety committee where you work.

Web-based employee education. For an even deeper safety resource, check out msfsafetytrainer.com, a convenient training tool that lets employees train right at their desks, in far less time—and at a lower cost—than most traditional teaching methods. Powered by PureSafety, this site features more than 195 safety and human resources compliance curriculums.

Return to Work (RTW) Program. Bringing an injured employee back to work as soon as medically appropriate is one sure way to boost productivity, enhance morale and save money. But many employers think adopting such a program is too complicated or too expensive. We've made it easy. Our Return to Work website (returntoworkmt.com) and RTW packet give businesses the information they need to organize and maintain their own RTW program at their workplace.

Young Workers: Safety Rocks. Young workers account for a significant portion of workplace injuries. That's why we started Safety Rocks, a learning program for employers and their young workers. Among other features, it provides materials to help employers talk safety with their younger workers. The program includes a fun and informative website (safetyrocks.us, now with special content for farm and ranch businesses, where many young workers spend their summers), as well as a safety packet to get young workers off on the right foot.

Customized, downloadable safety information. We know, safety information is everywhere, from simple warning signs to lengthy contracts. How can we cut through the clutter? With safety information that's clear, relevant, concise and, most important, useful. So we offer a few clearly-written publications that make safety info just right for you. Best of all, we won't overload your mailbox with them; you can download just the materials you want from our website, montanastatefund.com, or call us for free copies.

These downloadable publications are sure to cut through the clutter.

- **Safety for Small Business Manual**
- **Montana Agriculture Safety Manual**
- **Montana Fleet Safety Manual**
- **Business Safety Culture Series**
- **Topics include: wellness, accident investigation & analysis, accountability measures, employee recognition, employee education, Return to Work program, and written safety plans**

WorkSafe Champions: A commitment from employers. We're looking for Montanans like you to be "WorkSafe Champions"—hard workers that are committed to safety leadership in the workplace, through an intensive training plan. Selected participants will dedicate 16 hours over a 12-month period learning the nuts and bolts of safety education, communication and implementation. Workplace safety can be one of your company's best assets. So if you or someone you work with would make a great WorkSafe Champion, learn more. Then support the process in every way you can. Because the advantages go beyond safety. Applications will be reviewed soon. Training begins May 2008 for selected employers. See below to learn more about being a WorkSafe Champion.



>> The Economics of Safety

A model of workplace safety. And savings.

An agent with foresight and a mind for safety helps a lumber mill realize big financial benefits.

Many business owners take a passive approach to workplace safety. So did insurance agent Billy Bolt. He believed many on-the-job accidents came down to chance and a great deal of misfortune. But today, his attitude has changed. Bolt is convinced that a sound safety program can make a huge difference in preventing accidents and improving policyholders' workers' compensation costs.

A sawmill—what better place to see safety in action?

Billy says his attitude changed through an experience he had with Thompson River Lumber. Their high insurance expenses were coupled with an inordinate amount of accidents—some of them severe. But the loss of productivity was no accident. There was no proper structure in place to reduce losses. More important, there wasn't a concerted effort behind workplace safety in the first place. Bolt invited MSF's safety consultants to sit down and work with the mill's owner on turning their safety problems around.

A management team that's committed to safety. Bolt identifies the pivotal moment when he knew their plan would work. "The owner, Dan Claridge, came into the room sold on the idea of 'a culture of safety.' As a policyholder, he understood the consequences of his high experience modification factor and the loss time of his employees. He and his management team took safety to heart. From there, everything just flowed." How? At MSF's suggestion, the company initiated a Hero Program, put in a progressive disciplinary policy and created a Return to Work program.



How did Thompson River Lumber get back on track? Four easy steps.

1. Ownership took safety to heart
2. Safety leaders created a "Hero Program"
3. Management instituted a progressive disciplinary policy for safety
4. Company adopted a Return to Work program

And the results? "In the past three years their business has experienced a tremendous transformation," says Bolt. "They have gone from high frequency/high severity accidents to very low frequency and no severity. It has been an eye opener for me and, I think, for them." Bolt watched a business with a serious loss problem transition itself into a model for others within their industry. "I witnessed a good business, that was suffering from the financial consequences of poor safety policies and procedures, turn the corner and reap the financial benefits of their model safety program. Of course, that education has been very rewarding for me, too."

A great agent makes a big difference. Since 1997, Montana State Fund has partnered with insurance agents in a program that has grown to include 30 agencies and 369 producers and Customer Service Agents. Bolt explains, it can be tough for some policyholders to take notice when an agent champions safety. "Despite the financial incentive of being in a sales relationship, your agent should never just tell you what you want to hear," says Bolt. "True professionals will tell you what you need to know. Especially about safety. It can be uncomfortable. But look at this case study. In the long run, it works out."

Billy Bolt lives in Missoula and works for Flynn Insurance. He has been in the business for nearly 30 years.

Be the tipping point for your business: A WorkSafe Champion.

Every campaign needs a champion, and every team needs a leader. Take the lead with your company's safety efforts by participating in advanced safety and injury prevention training. You'll be an official member of our new WorkSafe Champion safety education program. This dynamic curriculum makes safety a priority for all Montana employers and employees. WorkSafe Champions will be trained to become safety advocates instrumental in creating a culture of safety across Montana.

Are you up to the challenge? Then contact us. If you think you have what it takes to be a certified WorkSafe Champion and can commit to making a difference in protecting Montana's workers, simply send a note to workchamps@montanastatefund.com.

Lance Zanto Departs as Valued Board Member



We offer our sincerest apologies to former MSF Board of Directors member Lance Zanto. In our Fall Perspectives, we overlooked his recent departure. We would like to thank Lance for his hard work and dedication during his tenure here at Montana State Fund. To learn more about our Board of Directors, visit montanastatefund.com.

Dividend Decision Date Moved

The MSF Board of Directors has moved the annual dividend decision from the spring to late fall. This will enable the board to review current fiscal data, and then determine their action at the November 7 board meeting. Where do dividends come from? Dividends are distributed from excess equity, or surplus, and cannot be guaranteed. They are beyond the funds we need to meet the needs of our policyholders, injured worker claims and operational expenses—all long-term obligations that require extensive planning. Dividends encourage safe business practices and ultimately reduce our policyholders' workers' compensation costs.

Here's To Your Health and Safety *Worklife Wellness Excellence Awards for nine Montana businesses.*

Lower employee turnover, fewer sick days, decreased medical costs and reduced insurance premiums are just some of the benefits a company can realize when their employees are protected by a healthy work environment. To recognize the employers that lead the way in workplace wellness, the Montana Worklife Wellness Coalition and the Department of Public Health and Human Services awarded nine Montana organizations Worklife Wellness Excellence Awards.

Gold Award Recipients

Northwest Healthcare, Inc., The Summit Fitness Center (Kalispell)

Silver Award Recipients

Carroll College (Helena)

Immanuel Lutheran Corporation (Kalispell)

Bronze Award Recipients

Billings Clinic

St. John's Lutheran Ministries (Billings)

The City of Missoula

Glacier Bancorp, Inc. (Kalispell/statewide)

Montana University System Wellness Program

The State of Montana Health Care and Benefits Division

To learn more about the Montana Worklife Wellness Coalition, or to apply for an Excellence Award, visit montanacardiovascular.mt.gov, or contact Chelsea Fagen at cfagen@mt.gov.

The Montana Worklife Wellness Coalition will hold its Annual Conference May 21 – 22 in West Yellowstone. To learn more about the conference or the Excellence Awards, visit montanacardiovascular.mt.gov.

Customer Service

406-444-6500

800-332-6102

TDD-TTY 406-444-5971

Web Address/Safety Seminar Registration

www.montanastatefund.com

ACE Program

800-332-6102

Extension 5982 (Carl Kochman)

Fraud Hotline

888-MTCRIME

888-682-7463 or report online
at www.montanastatefund.com

Return to Work Website

www.returntoworkmt.com

Safety Seminars

800-332-6102

Extension 5892 (Bryan Page)

Extension 7048 (Rita Naylor)

Young Worker's Website

www.safetyrocks.us

2007 ANNUAL REPORT

Financial Highlights • Management Report • Quick Facts • and more



A LETTER FROM THE CHAIRMAN



On behalf of the Board of Directors, I am pleased to present the Montana State Fund Annual Report for FY2007. As you can see, this dynamic team of professionals is committed to providing all Montana business owners and their employees an essential service that is competitively priced, and fulfills our role as the guaranteed market. While we provide coverage to some of Montana's largest businesses, the majority of our policyholders are the most vital part of this state's economy: the smaller, family-owned operations that keep our towns and communities alive and growing.

Each year at Montana State Fund, we set goals for ourselves—goals that are based on outstanding customer service, claims management, and dedication to our customers. We've reached those goals through superior service performed with the highest degree of integrity and efficiency. We are working hard to reduce workplace injuries through our safety education and training. We help get injured people back to work sooner with our Return to Work program. And we are constantly researching, learning and training to stay in front of trends and new technologies. Workers' Compensation Insurance is a very complicated business, and as such demands a high degree of skill managed by competent, dedicated professionals. Montana State Fund has exactly those qualities.

Also, I would like to personally acknowledge my fellow board members. Yours is a volunteer position, but one that demands a great deal of your personal time. I am energized by your dedication, knowledge and belief in this organization.

Finally, to all our loyal policyholders, agents, legislators, medical providers, employers and employees—thank you. Your support and participation make our hard work worthwhile.

A handwritten signature of Joe Dwyer.

Joe Dwyer, Chairman of the Board

A YEAR OF GREAT ACCOMPLISHMENTS *Improving Financial Strength and Customer Value: President's Message*



2007 has been another year of performance success for Montana State Fund. Through our dedicated employees, led by a professional management team, our accomplishments in 2007 have improved our financial strength and provided significant value to our customers.

WHAT SETS US APART

Montana State Fund's mission and vision focus on the health and economic prosperity of all Montanans, and we offer something that any

business needs: value. That's why over 28,000 Montana businesses choose Montana State Fund as their workers' compensation insurance partner.

Our leadership in safety is one reason. MSF conducts over 70 safety workshops around Montana that are available to anyone, not just Montana State Fund customers. That's how committed we are to improving workplace safety in Montana. But for our policyholders, there is more: advance training, custom on-site assessment and direction, internet and video resources, and soon, the Safety Champions program.

Our rates are another compelling reason. Our

premium rates are competitive yet consistent with sound insurance practices. MSF can often offer lower premiums, even with our added services, because we operate efficiently and are experts in Montana workers' compensation insurance. In addition, our customer service is second to none. Superior customer service is our hallmark, and it is paying off, both for our customers and our employees. Policyholders have told us again and again how they appreciate our work and attitude. And our employees find satisfaction in being able to help someone who is injured. (See the box at right for some great examples.) What else sets us apart? The realities of workers' compensation insurance. In workers' compensation, we help

WE WORK HARD TO SERVE OUR CUSTOMERS. AND THEY NOTICE.

Customer service is one of the strengths that sets us apart. Their opinions prove it.

Your employee is so helpful and always on top of my concerns. We appreciate her and your whole team.

Please let me know if I can make life easier for you and your staff.

—Insurance Agent

Thanks for all of your help. You are professional and courteous, and you really care about my situation.

You're the kind of worker the state needs. Keep up the good work.

—Injured Employee

Your employee is always willing to help answer questions, and consistently calls back to check up on my policy.

She is great to work with.

—Policyholder

care for injured employees from initial treatment through the healing process. There are more sophisticated (and costly) medical advances than ever before. With longer life spans, benefits can be paid for decades and our customers need to know we're in it for the long haul. Over time, individual claim costs can sometimes mount into the millions of dollars. It's one of the reasons our staff works hard to help an injured worker receive the most appropriate care while helping them stay at work or return to work in a timely manner.

Extensive industry knowledge and smart financial decisions help keep us competitive. The challenge is, we never know when the next big claim is coming, or how long the payments will last. It's a constant challenge, one that's unique to our industry, and requires us to maintain a substantial savings account (also known as a "surplus").

Of course, it also means our employees and management are conscientious about staying within budgets. That kind of thinking helped us achieve successes like those in fiscal year 2007.

We wrote \$24.8 million in new premium, and earned a total net premium of \$238.2 million. With a 73% market share, we covered about 28,500 policyholders. Of those, only 8% are governmental entities, while 92% are main-street, Montana businesses.

TAKING THE INITIATIVE TO MAKE SAFETY A PRIORITY IN FISCAL YEAR 2008

Among our many initiatives for fiscal year 2008, arguably the most important is providing a safe workplace for Montana workers. We invest millions of dollars in our safety programs and through dedicated safety professionals. Unfortunately, Montana lags behind other states in work-place safety, with an injury rate that's 57% above the national average. Accident frequency is largely responsible for higher workers' compensation rates in Montana. In addition to our efforts, the Labor and Management Advisory Council on Workers' Compensation, the Montana Chamber of Commerce, and several leading businesses have

taken notice, and are taking the initiative to change those results. We're also building a new headquarters to meet current and future business demands. Due for completion in 2010, our new home, located in downtown Helena, will be a LEED-certified ("green") building, because in Montana we do what is right to preserve and protect our environment for future generations. The building will be financed using current invested assets of Montana State Fund managed by the Montana Board of Investments and converted to real estate.

Our goals are far-reaching and so is our commitment to Montana. Through the dedication of our good people, our vision for Montana will be realized, helping make our state the Last Best "Safe" Place to work and to live.

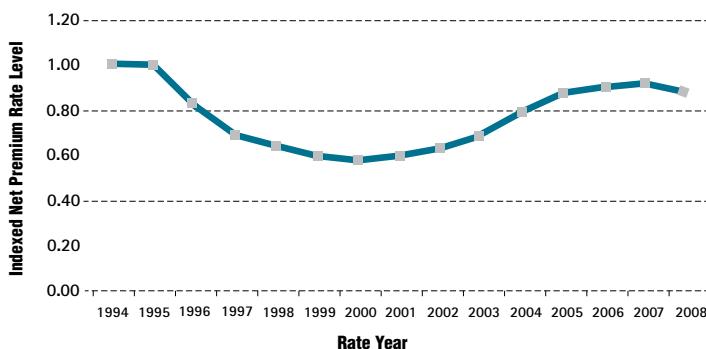
Thank you for the opportunity to serve you.



Laurence A. Hubbard, President/CEO

MSF Rate Levels

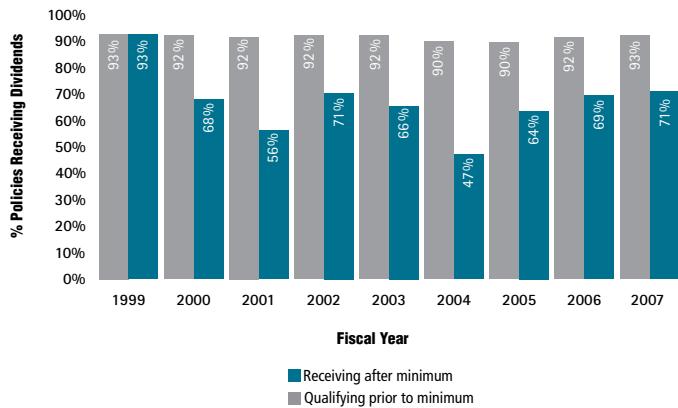
Manual Premium Net of Avg UW Credit/Debit



MSF rate levels significantly decreased from 1994 to 2000 due to improved conditions in the workers' compensation arena including lower medical inflation, declining claim frequency, and statutory benefit changes beginning in 1996. MSF rate levels bottomed out in 2000 and are now rising due to increased medical costs and statutory and judicial benefit expansions. MSF rates are about 12.5% below 1994 rates.

Customers Receiving Dividends

Percentage of MSF Customers Receiving a Dividend Among all Eligible Customers



Since 1999, when MSF began issuing dividends to its policyholders, over 90% of eligible policyholders have qualified to receive a dividend prior to application of the minimum dividend. Over the past nine years, an average of two-thirds of MSF customers have actually received a dividend. Dividends cannot be guaranteed and are contingent upon MSF maintaining a strong financial condition in future years.

THROUGH OUR CUSTOMERS' EYES

To sharpen our performance, we turned to the experts: You.

Introspection is a reflective, inward-looking examination, and early in 2007 it became our focus. We challenged ourselves to reflect on how we do our business on a day-by-day, hour-by-hour basis. This helped us answer some difficult questions. Are our business practices as efficient as possible? Do our employees have every opportunity to be the best they can be, both personally and professionally? This process helped us refine how we manage all aspects of our business operations. But, ultimately, we found that the surest way to a successful outcome was to understand how Montana State Fund appears to our customers, and to resolve each of their

needs with empathy. The question for 2007 then became: Do we listen to the wants and needs of our internal and external customers?

Through customer service training. Positive customer relations have always been very important to us. But, like any skill, from time to time we all need a refresher course. That's why our employees created and presented our own in-house customer training program. The entire staff—including the president—took part in this three-hour interactive event. The outcome was a good "LAFF" (that is, Listen, Apologize, Fix and Follow-up), an easy-to-remember recipe for customer service that has become second nature for our

employees' day-to-day contacts.

Through specialized education programs. We also took a big step last year in unveiling our Return to Work (RTW) Program for policyholders and injured employees. RTW aims to get injured employees back to work and productive as soon as medically appropriate. Reliable studies suggest that downtime, as little as three months' worth, decreases a worker's chance of returning to less than 50%. This program saves our policyholders money, improves injured employees' morale and facilitates the healing process. The components of the campaign included a special RTW kit with step-by-step employer instructions for setting up a

program, and a companion website (returntoworkmt.com). Then, to promote this effort, we launched a statewide media campaign. Policyholders, agents, injured employees and our own staff have all embraced this exciting venture.

Through improved claims management. Resolving a claim in the most respectful and efficient manner is our number one priority. To that end, we

concentrated our efforts to establish “Best in the Industry” standards for optimum claim resolution. Our journey began with an unbiased, fact-based appraisal of our current performance level. Using the collected data, we organized specialized trainings aimed at empowering claims’ examiners to improve their level of performance. In addition, we enhanced the service

capabilities of our business software, ClaimCenter. The advanced system has worked remarkably well. The improved claims management now allows our examiners to do what they do best: help injured employees heal in the quickest and most dignified manner.

CUSTOMERS HELP MSF RECOGNIZE EXCELLENCE

In our Recognizing Excellence program, customers were asked to identify MSF employees who went the extra mile for them. Herb Byers, a Safety Management Consultant on Team 5 (pictured far right), was one such employee. Karen Beddow, a customer service specialist on Team 1, was also recognized. Congratulations to all.



STATUTORY STATEMENTS OF ADMITTED ASSETS, LIABILITIES, AND EQUITY

as of June 30,

2007

2006

ADMITTED ASSETS

INVESTMENTS AND CASH

Bonds	\$ 776,129,409	\$ 668,698,440
Equity Securities	100,545,339	83,377,362
Real Estate Investment	1,139,460	-
 Cash and Short-Term Investments	 13,744,136	 14,919,072
Other Investments Collateral Securities on Loan	146,413,103	132,438,892
 Total Investments and Cash	 1,037,971,447	 899,433,766

OTHER ADMITTED ASSETS

Premium Receivables	25,321,721	25,969,723
Equipment (net)	1,521,390	1,266,139
Interest Receivable	11,214,265	9,466,862
Other Assets	21,074,298	15,771,861
 Total Admitted Assets	 \$ 1,097,103,121	 \$ 951,908,351

LIABILITIES AND EQUITY

LIABILITIES

Losses Incurred Reserves	\$ 607,086,257	\$ 535,114,270
Loss Adjustment Expense Reserves	72,122,743	55,573,730
Liability for Securities on Loan	146,413,103	132,438,891
Deferred Revenue	10,216,394	16,484,046
Other Liabilities	62,096,107	49,195,919
 Total Liabilities	 897,934,604	 788,806,856

CONTINGENCIES AND SUBSEQUENT EVENTS

EQUITY

Policyholders' Equity	199,168,517	163,101,495
 Total Liabilities and Equity	 \$ 1,097,103,121	 \$ 951,908,351

STATUTORY STATEMENTS OF REVENUE AND EXPENSES AND CHANGES IN EQUITY

for the years ended June 30,

	2007	2006
Net Premium Earned	\$ 238,202,708	\$ 211,892,198
Losses Incurred	(187,821,156)	(180,614,395)
Loss Expenses Incurred	(35,428,189)	(25,223,629)
Underwriting Expenses Incurred	(24,277,149)	(19,344,047)
Net Underwriting Loss	<u>(9,323,786)</u>	<u>(13,289,873)</u>
Net Investment Income Earned	37,919,659	32,440,146
Net Realized Capital Gains (Losses)	(655,807)	(255,892)
Premium Balances Charged Off	(520,732)	(2,791,527)
Other Income (Expense)	<u>(1,503,672)</u>	<u>(981,233)</u>
Net Income Before Dividends	<u>25,915,662</u>	<u>15,121,621</u>
Policyholder Dividends	<u>(7,000,966)</u>	<u>(5,001,042)</u>
Net Income After Dividends	<u>18,914,696</u>	<u>10,120,579</u>
Prior Year End Equity	163,101,495	148,353,871
Net Unrealized Gains on Equity Securities	17,167,977	6,640,265
Change in Nonadmitted Assets	(14,880)	(2,012,516)
Aggregate Write In for Other Losses in Equity	<u>(771)</u>	<u>(704)</u>
END OF PERIOD EQUITY	<u><u>\$ 199,168,517</u></u>	<u><u>\$ 163,101,495</u></u>

REPORT OF MANAGEMENT

The management of Montana State Fund (MSF) is responsible for the financial statements and all other information presented in this Annual Report. MSF maintains a system of internal control designed to provide reasonable assurance that assets are safeguarded against loss and that transactions are executed and recorded in accordance with management's authorization. This system encompasses the organizational structure, selection and training of personnel, communication and enforcement of policies and procedures, and ongoing internal and external audit programs. Internal controls are continually reviewed and evaluated by management.

The financial statements are presented for our fiscal years ending June 30, 2007 and 2006 and include amounts based on the best estimates and judgments of management. These financial results are presented on a statutory basis, which is consistent with insurance industry financial statement presentation. MSF governs, operates and completes its financial reporting as an insurance company domiciled in the state of Montana, and its financial statements are presented on the basis of accounting practices prescribed or permitted by the Montana Insurance Department.

The statements included in this annual report should not be considered complete audited financial statements. The statements presented are representative of audited financial statements as audited by Galusha, Higgins & Galusha, an independent public accounting firm. Galusha, Higgins

& Galusha issued an unqualified opinion on MSF's statutory financial statements. The complete audited financial statements including the accompanying notes are available upon request. The preparation and independent external audit of statutory financial statements is discretionary on the part of MSF, but one that is seen as important. Evaluating the financial results of MSF in comparison to other insurers aids in assessing and maintaining the financial security and stability of MSF as a workers' compensation insurer. In addition, MSF is a component unit of the state of Montana. As required in law the Legislative Audit Division (LAD) of the state of Montana conducts independent audits of financial statements of MSF presented in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). For the financial periods ending June 30, 2007 and 2006, MSF received unqualified audit opinions from the LAD. The audited governmental financial statements and the related audit opinions are issued under separate cover. To obtain a copy of the full governmental financial statements, contact the Legislative Audit Division. The presentation of the statutory financial statements in this report differs from the governmental presentation basis (GASB). A financial reconciliation of equity between the audited GASB financial statements and the audited statutory financial statements presented in this report is provided on page 4.

HIGHLIGHTS *A Few of the High Points from 2007*

- For the ninth consecutive year we awarded a dividend to deserving policyholders. Since 1999, we have returned \$48 million to our customers with superior safety records.
- The ACE (Assisting Charitable Endeavors) program awarded \$36,174 to 21 worthy projects. ACE makes matching funds available to qualifying Montana nonprofit organizations that contribute to the safety and community well-being in our state.
- In its efforts to uncover fraudulent claims, the Special Investigations Unit has saved nearly \$33 million since the program's inception in 1993.
- Governor Brian Schweitzer appointed Thomas Heisler (Great Falls), Boyd Taylor (Butte) and Wallace Yovetich (Billings) to serve on the MSF Board of Directors. They join Jane DeBruycker, Chairman Joe Dywer, Ken Johnson and James Swanson.
- We hosted 1,931 Montana employers at 83 safety trainings throughout the state. That's a 39% participation increase over 2006.
- Safety Management Consultants visited 1,539 policyholders.
- We received a first-place award for the Return to Work kit from the American Association of State Compensation Insurance Funds.
- More than 100 medical providers and workers' compensation professionals from across Montana attended our sixth annual Medical Education Conference.
- Nine scholarships were awarded to families of workers who were fatally injured in work-related accidents. While nothing replaces the loss of a loved one, our scholarship program provided an additional benefit to those most affected by significant loss.

A COMPARISON OF GASB TO STATUTORY ACCOUNTING ENDING EQUITY FOR THE YEAR ENDED JUNE 30, 2007 (in 000s):

Governmental Accounting (GASB) Ending Equity..... \$201,605

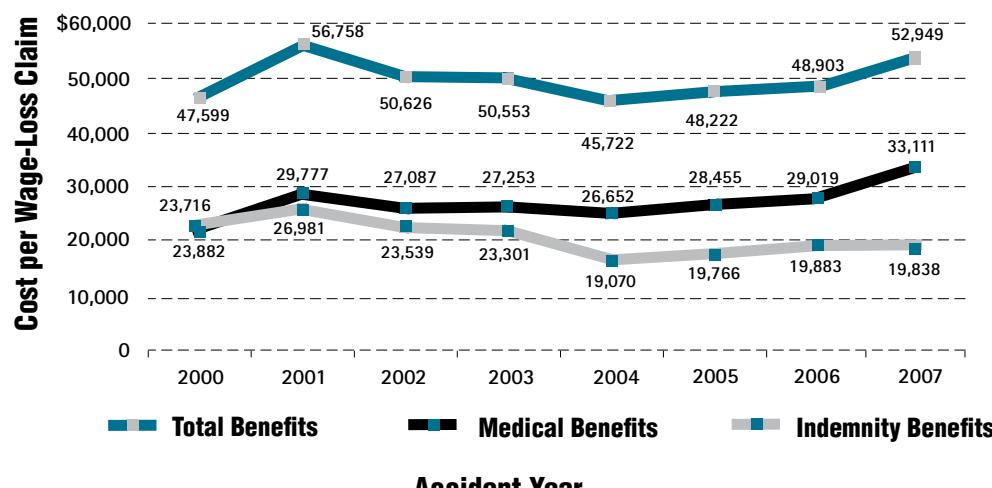
Reconciling Items:

Unrealized Gain on Fixed Income Securities	(22,351)
Net Effect of Cumulative Unrealized Gain on Equity Securities.....	32,139
Net Effect of Cumulative Change in Non-Admitted Assets.....	(9,125)
Other (Deferred Acquisition Costs, etc.)	(3,099)
Statutory Accounting Ending Equity.....	\$199,169

QUICK FACTS AS OF JUNE 30, 2007

Net Earned Premium.....	\$238,202,708
Number of Policies Serviced	32,931
Total Number of Claims Processed	15,103
Investment Income	\$37,263,853
Net Income After Dividends.....	\$18,914,696
Policyholder Dividends	\$7,000,966
Loss and LAE Reserves.....	\$679,209,000
Equity	\$199,168,517
Reserves to Equity Ratio (after dividend)	3.41
Premium to Equity Ratio (after dividend)	1.20

Average Cost per Wage-Loss Claim Adjusted for Statutory Benefits Level Changes



Current estimates indicate that average claim costs declined by 20% from 2001 to 2004, reflecting operational improvements in MSF claims management. Normally, we expect the cost of claims to rise by the rate of general medical inflation and the rate of wage inflation. Since 2004, claims have been rising at an average annual rate of 4.7%.

BOARD OF DIRECTORS



*Jane DeBruycker
Dutton*



*Joe Dywer, Chairman
Billings*



*Thomas Heisler
Great Falls*



*Laurence Hubbard
Ex-Officio, Helena*



*Ken Johnson
Missoula*



*James Swanson
Glendive*



*Boyd Taylor
Butte*



*Wallace Yovetich
Billings*

EXECUTIVE TEAM

*Standing, back: Tony Johnson, Vice President, Human Resources;
Al Parisian, Chief Information Officer; Nancy Butler, General Counsel;
Layne Kertamus, Vice President, Insurance Operations*

*Seated, front: Laurence Hubbard, President/CEO; Peter Strauss,
Vice President, Insurance Operations Support; Mark Barry,
Vice President, Corporate Support*

